

THOUGHTS

Towards Economic Accounting or Noble Origin?

Sérgio de Iudícibus

Emeritus Professor of University of São Paulo and
Professor of Pontifical Catholic University

There are three domains to accounting: pure accrual, economic and social (Martins, 2012). **Initially**, almost all major concepts were presented from a purely accrual approach. Thus, the Object and Objective of accounting were defined based on the old-fashioned view of the company, in which the capital owner was the manager of the business (Martins, 1972). However, the business world and environment have widened and become increasingly complicated, while management has gradually become dissociated from the capital owners. This transformation initially caused many problems, as certain goals that managers wanted to maximize were not of particular interest to the capital owners. Fortunately, this issue heralded the arrival of the economists, and Agency Theory was created, which partially harmonized the objectives of the managers and owners. More recently, the excessive greediness of some market participants has led to major accounting scandals, but this is a story that has already been told in many different ways.

Today, the interface between the three domains mentioned above is quite large, especially between the accrual and economic approaches and, in continental European and Latino countries, the social approach. Decades ago, accounting lived in a type of platonic romance with itself, glorifying historical cost, until economists (according to Nelson Carvalho) knocked on our door and showed us that we were living in a dream world and that among other problems caused by inflation, businesses were paying tax on a fictitious portion of profits. Thus, we began to attempt to mend the damage, building ingenious models of indexation, extrapolating Replacement Cost (a **benign** version of Fair Value?) and Adjusted Replacement Cost, among others.

These improvements were introduced properly without ever abandoning the fluidity of financial reporting from one period to another and without destroying historical cost, such that information users could evaluate trends in a continuous and smooth manner.

Conceptual structures were built by theorists (Sprouse & Moonitz, 1962; Moonitz 1961; Mattessich, 1964; Hendriksen, 1970; Iudícibus, 2010, and others) following the same evolutionary line and always in accordance with the fundamental pillars of accounting, which are *Stewardship* and *Accountability*. Historically, accounting has not been a mechanism for stocks valuation by market value of “subjective” economic equity approach but periodical allocation of resources made available to managers and that, among other functions, evaluates company progress and the performance of its own managers.

Since 1973, however, two new global actors have entered the accounting scenario: the *Financial Accounting Standards Board* (FASB) and the *International Accounting Stan-*

dards Board (IASB). From an informational point of view, these bodies are more inclined to favor investors, although these boards are by no means ignorant of creditors and other stakeholders. As globalization gallops apace, the importance of the interventions of the FASB and IASB is ever increasing, the latter under the (correct) pretext of accounting comparability between countries, such that an investor in any region of the world can better evaluate investment opportunities because accounting reports from each country are standardized across the same set of operations. This well-known change finally arrived in Brazil in 2007 through the use of the IASB, Laws, and CPC (Comitê de Pronunciamentos Contábeis [Brazilian Accounting Pronouncements Committee]), among others. Accounting would never be the same because instead of following its own ancient logic and structure, accounting would be transformed to include the economy as an essential parameter (Murphy and others, 2013). *Accounting follows Economics*, says the eminent Nelson Carvalho. The final version of Chapter 1 of the IASB/FASB's *Conceptual Framework for Financial Reporting* (2010) explicitly recognizes the so-called **Providers of capital** (investors and creditors) as unique users. It appears that this Chapter 1, at least, will not be changed. However, by adopting this premise, will accounting as a science end up transforming itself into a sub-branch of economy at most and losing some of its old attributes, i.e., *Stewardship* and *Accountability*? These issues are very subtle and hardly noticeable to neophytes in accounting theory. Because of the acceptance of IASB/FASB concepts, of course, the highly significant *Fair Value* has emerged. Everyone was thrilled with it! Finally, the balance will have a predictive value and will no longer be a mere picture of the past, as if the past were completely devoid of predictive capability and a dimension to be relegated to oblivion! Accountants will always be the best **predictors from the past!** It is in the DNA of the accounting discipline.

Any “Anglo-saxonization” of accounting, the vassal of the economy, becomes even clearer when one thinks of *Fair Value* as an output value, when it is not the complex result of mathematical formulas! The pronounced neoliberal economic nature of IASB/FASB concepts (Murphy and others, 2013) could somehow cause accounting to return, at the limit (if the result is the application of Fair Value to all assets and liabilities) - which does not currently appear to be the IASB's trend - to the era of inventories being performed from time to time and the evaluation of assets and liabilities at fair value, **as a general rule** (Iudícibus, 2010). The result would be a type of *Valuation* and not accounting science as we know it (Iudícibus, 2010). Of course, it has always been maintained that accounting information must be more of an economic essence than a legal form. However, this definition is not the same as transforming accounting, in certain aspects, into episodic evaluations, leaving no clues

of the original values, at least for the external user. At their hearts, the IASB/FASB, philosophically, are not so interested in accounting as a system that is fluid in its *Stewardship* and *Accountability* or see this definition only as being of secondary importance. These boards are more focused on the assessment of market values, as if the analysis of trends and progress must be made through a comparison between fair value and others, obscuring the origin of everything - that is, the original cost. Moreover, great authors such as Ohlson (1995) abhorred market values (and IASB standards) and based their theories (successfully, it appears) on historical cost. There have also been many doubts about this proposition; however, the fact is that this proposition has worked in research, drawing attention to the greater importance of purely financial indicators such as book value per share and earnings per share, insofar as they are more decisive than the multitude of fashionable indicators such as EBITDA [earnings before interest, taxes, depreciation and amortization] or EVA [economic value added], among others.

Evaluating Company Progress and Accountability, in fact, are the key historical parameters of accounting, the *Living Law* (Murphy and others, 2013) of accounting in terms of its control function. These parameters characterize accounting as a **unique science that is distinct from all others**. These authors define *Living Law*, more simply, as **"the moral or customary tradition of a particular community"**. Thus, ancient accounting concepts culminate in the vision of *stewardship/accountability* and are manifested through successive accounts and reports that systematically obey double-entry principles, avoiding peremptory and alarming evaluations. **Present values can and should be incorporated, but always from a starting point of the original values corrected by some type of coefficient extracted from general or specific price indices** (Iudícibus, 2010). It is interesting to note how regulation standards have advanced, **almost** recklessly in some cases, such as in the adoption of Fair Value in general and, in particular, in the evaluation of biological assets at fair value and, simultaneously, the paucity or absence of everything referring to internally created intangibles or to social aspects, for example. If *Accounting follows Economics*, then it should follow it in all aspects. If, while acknowledging that the interface between accrual and economics remains the most important one, one believes that *Accounting follows Society* or ***Accounting follows Accounting***, then present values (such as Replacement Cost) may be successfully introduced in a systematic manner similar to the introduction of full monetary connection in Brazil. It is not, therefore, a return to the past but a reconciliation with the studies and findings of many researchers who advocated modern accounting (Edwards & Bell, 1961) long before the FASB/IASB were formed. The concepts and norms of the IASB/FASB represent a major regulatory step and undeniable progress, mainly in Brazilian accounting transparency. However, as researchers, it is our duty to hold an attentive and critical/constructive attitude and, when necessary, even be willing to enrich and broaden the conceptual perspective of regulators from a

purely economic spectrum to a broader one, the social domain. The IASB and FASB were initially heavily influenced by accounting theorists. Currently, it appears that the latter are the ones who feel challenged by regulatory concepts.

These thoughts are the result of still embryonic research, readings and findings and aim to stimulate greater insight; they should not be taken as definitive or even subscripts in parentheses by the author. The concepts of the article by Murphy and others (2013), although useful for this *Thoughts* section, should be considered entirely coincident with any conclusions drawn, which are my own responsibility.

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